

VZCZCXRO8585  
OO RUEHCHI RUEHDT RUEHHM  
DE RUEHML #1020/01 0880925  
ZNR UUUUU ZZH  
O 290925Z MAR 07  
FM AMEMBASSY MANILA  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 5882  
INFO RUEHZS/ASSOCIATION OF SOUTHEAST ASIAN NATIONS IMMEDIATE  
RUEHBJ/AMEMBASSY BEIJING IMMEDIATE 6048  
RUEHGZ/AMCONSUL GUANGZHOU IMMEDIATE 4311  
RUEHHK/AMCONSUL HONG KONG IMMEDIATE 4564  
RUEHGH/AMCONSUL SHANGHAI IMMEDIATE 0038  
RHHMUNA/CDRUSPACOM HONOLULU HI IMMEDIATE  
RUEHIN/AIT TAIPEI IMMEDIATE 1463  
RUEKJCS/SECDEF WASHDC IMMEDIATE

UNCLAS SECTION 01 OF 03 MANILA 001020

SIPDIS

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STATE FOR EAP/MTS AND EAP/CM

E.O. 12958: N/A

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SUBJECT: THE CHINESE ARE COMING...WELL MAYBE NOT QUITE YET

REF: 05 MANILA 1954

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¶1. (SBU) SUMMARY: Filipinos predicted that the economic rise of the People's Republic of China would benefit the provinces of north Luzon, which, thanks to mineral resources, agricultural potential, gambling, and beaches, should be a natural draw for Chinese tourists and investors. However, no significant PRC investors have set up businesses in Ilocos Norte so far, and PRC tourism has stagnated. Deep-rooted problems with the local investment climate, including poor infrastructure and infighting among local politicians, are likely the key factors for this. With the imminent opening of a PRC Consulate in Ilocos Norte, local officials are hopeful that their province will yet become a destination of choice for Chinese investors and tourists. The problems of Ilocos Norte are illustrative of many localities in the Philippines where political and economic conditions discourage overall new investment and tourism, not only from the PRC. END SUMMARY.

#### OPTIMISTIC PREDICTIONS

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¶2. (U) Philippine officials have identified northern Luzon as the ideal site for investors and tourists from the PRC. With its close proximity to the PRC, its mineral resources, agricultural potential, gambling facilities, and beautiful beaches, northern Luzon could in theory be a magnet for PRC wealth. The northwesternmost province of Ilocos Norte (coincidentally, Marcos country, where the current governor is the son of the late dictator) figured prominently in these expectations. Philippine President Arroyo once remarked that "there are 400 million Chinese who can afford to travel and are curious about the world around them," highlighting that capital city "Laoag is only about an hour and a half away from Canton and two hours from Shanghai." In a recent media interview, President Arroyo observed that "the Chinese are very, very interested in coming to Ilocos Norte because it is very near China."

#### LACKLUSTER RESULTS

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¶3. (SBU) According to interlocutors in Ilocos Norte, however, the enthusiastic pronouncements of the President have not led to developments on the ground. A senior

official in the local Filipino-Chinese Chamber of Commerce told poloff that Ilocos Norte has seen "no substantial Chinese investments" in any sector. The statistics of the Laoag sub-office of the Department of Tourism show that Ilocos Norte averaged only about 400 PRC tourists a month in 2006. A tourism official predicted that these numbers would likely drop further with the recent cancellation of the Hong Kong-Laoag flight and the reduction of the Guangzhou-Laoag charter flight from once a day to twice weekly. This continues a downward trend begun in 2005, with the cancellation of direct flights from Shanghai and Macau. In contrast, tourist arrivals from Taiwan have steadily averaged almost 2,000 a month.

14. (U) Tourism authorities said that they had escorted numerous PRC business delegations through Ilocos Norte over the past several years, but have seen no notable commitments. Ilocos Norte Governor Ferdinand "Bong Bong" Marcos, Jr. also traveled frequently to the PRC in 2005 and 2006 to drum up business for the province, but has had little to show for his efforts, they noted.

#### LACK OF CAPACITY/INFRASTRUCTURE

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15. (SBU) Governor Marcos told poloff that the slow growth of PRC tourism and investment in his province was due primarily to a lack of hotel capacity, a view shared by other local officials. According to one, only the Fort Ilocandia Resort and Casino (289 rooms) effectively courts PRC tourists. Currently, there are only about 1000 hotel rooms in all of Ilocos Norte, and most of these are not up to international standards.

16. (SBU) Another persistent problem appears to be poor power

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supply, in part due to the demise of a local development project -- the Laoag-Luzon Industrial Estate -- which "never left the drawing board." Managers of the Fort Ilocandia Resort also cited frequent brown-outs as a problem. Other local officials pointed to the lack of bridges, a deep-water port, and farm-to-market roads as further hindering economic progress, if not necessarily tourism.

17. (SBU) Another major hindrance to foreign investment is the difficulty in purchasing or renting property. One official recalled how the incoming PRC Consul to Laoag City (see para 10) offered to bring a PRC agribusiness investment if officials could identify 20 hectares of land for a greenhouse. Officials decided that in order to rent 20 contiguous hectares of land they would have to deal with "thousands" of separate owners, and concluded it would be "an impossible task." Additionally, there is a constitutional prohibition on foreigners owning land.

#### DIRTY POLITICS

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18. (SBU) Several interlocutors quietly pointed to a conflict between the Laoag Mayor and Governor Marcos as the "invisible force" behind the poor investment climate in the province. Members of the Filipino-Chinese Chambers of Commerce described to poloff a "hypothetical province" in which the mayor and the governor, as political enemies, ruthlessly blocked each other's development initiatives by imposing insurmountable regulatory requirements. Another official commented more benignly that a "lack of government coordination" had slowed the influx of PRC investment in Ilocos Norte.

19. (SBU) As a reminder of the literal dangers of a bitter political climate, authorities in 2005 charged the Laoag Mayor with the murder of his vice mayor, although they later dropped the charges. The Mayor maintains a protective detail

of eight bodyguards - one of whom, in a recent incident, accidentally shot the Mayor in the foot with his M-16 rifle.

NEW PRC CONSULATE  
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¶10. (U) The long-awaited (since Hu Jintao's April 2005 State visit -- reftel) formal opening of a PRC consulate in San Nicholas/Laoag City will take place on April 11. According to press reports, the Consulate will initially consist of Consul Chen Lai Ping and attaches Zhing Xin and Yu Shuang. Chen remarked to local media that "the two countries would like to strengthen cooperation between Southern China and Northern Luzon."

¶11. (U) Chen has publicly indicated that the Consulate's primary mission will be to promote PRC investment in Ilocos Norte, especially in the mining and agribusiness sectors. Cruz said that the PRC is offering to widen and extend the runway at Laoag City International Airport and is already engaged in various feasibility studies. In addition, Chen noted that the PRC Ambassador promised to bring PRC investors with him to the opening of the Consulate.

COMMENT  
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¶12. (SBU) Despite the interest expressed by the governments of the Philippines and the PRC in encouraging investment and tourism in northern Luzon, fundamental problems with the investment climate in Ilocos Norte appear so far to have discouraged attempts to attract large numbers of PRC tourists and businesses. Some observers view the opening of the PRC with a more suspicious eye, suggesting instead that the real intent is to keep an eye on Taiwan and visitors from Taiwan. The problems of Ilocos Norte in attracting significant investment from any foreign source are illustrative of the conditions in many localities in the Philippines, where bitter dynastic rivalries sometimes end in stalemate or even violence, and where hidebound local officials often believe that attracting investments -- whether from the PRC or elsewhere -- is a zero sum game at which the primary goal is not letting political opponents "win."

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